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**IN THE COURT OF APPEAL OF THE STATE OF CALIFORNIA**

**FOURTH APPELLATE DISTRICT**

**DIVISION TWO**

MAJESTIC MARKETING, INC.,

Plaintiff and Respondent,

v.

DAVID E. NAY et al.,

Defendants and Appellants.

E047085

(Super.Ct.No. RIC492042)

OPINION

APPEAL from the Superior Court of Riverside County. Bernard Schwartz, Judge.

Affirmed with directions.

The Atlantis Law Corporation, John S. Durkin, Rashid Sigg, and Holly L. Hostrop  
for Defendants and Appellants.

Law Offices of E. Nicholas Hansen and E. Nicholas Hansen for Plaintiff and  
Respondent.

**1. Introduction**

Majestic Marketing Inc. (Majestic) is a Corona-based company engaged in  
marketing customized promotional materials to more than 20,000 customers in the United

States and Canada. David Nay and his father, Tom Nay, are former employees. After Majestic sued the Nays, the trial court granted a preliminary injunction prohibiting the Nays from contacting 3,000 of Majestic's customers.

The Nays appeal, contending Majestic's customer list is not a trade secret and the "Non-Compete Clause" in Majestic's employment manual is void. Additionally, the Nays challenge the breadth and scope of the preliminary injunction and the adequacy of the \$75,000 undertaking.

We affirm but remand for further proceedings concerning the ongoing nature of the alleged injunction.

## 2. Factual and Procedural Background

The facts of this case are mostly undisputed except as noted.

Majestic first began business sewing awnings in 1922. As alleged in its complaint, it now manufactures and sells "customized promotional, trade show, and specialty items and products to companies throughout the United States and Canada."<sup>1</sup>

David Nay began working for Majestic in July 2002. He became the salesman in charge of the western region and the profitable national cheerleading competition market. Tom Nay began working for Majestic in February 2006. He became the salesman in charge of the southern region.

The employee manual, as revised in March 2004, included the following "Non-

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<sup>1</sup> "Our story begins in 1922 as a small sewing operation producing awnings for downtown store fronts. Now, we have become a global operation producing and sourcing promotional products in China, Mexico, and in the US in our California facility." (<http://www.bagmasters.com/about> [as of Jan. 20, 2010].)

Compete Clause”:

“Each employee . . . agrees and acknowledges that the business entails methods of operations, sales techniques, lists of customers, suppliers, and use of all material, and other confidential information which have independent economic value as a result of not being generally known to the public. All printed materials from MAJESTIC MARKETING are copyrighted and copying or distribution of such materials is not allowed. The employee further acknowledges that in order to fairly and reasonably protect the business of MAJESTIC MARKETING, the trade secrets and confidential information must not be divulged to any unauthorized person without the express written consent of MAJESTIC MARKETING. The employee recognizes that if any trade secrets or confidential information is divulged, MAJESTIC MARKETING and the business will suffer irreparable and immeasurable damage. . . . All clients are property of MAJESTIC MARKETING; the employee cannot, upon termination of his/her employment, have any contact with MAJESTIC MARKETING clients (other than conducting business common to that client’s method of generating income) for any purposes that involve the exchange of goods, services, or payments. The employee hereby agrees that during the period of this Agreement and for (2) years thereafter, he/she will not use, give or divulge any trade secret or confidential information to any person.”

Majestic alleges that, in 2007, while still working for Majestic, David Nay formed another marketing company, “Think Green Promos,” using confidential information and trade secrets about customers obtained during his employment.

The Nays’ employment ended on January 4, 2008. In February 2008, Majestic

sued the Nays for misappropriation of trade secrets, breach of contract, unfair competition, and interference with prospective economic advantage. David Nay filed a cross-complaint for breach of contract, violation of Business and Professions Code section 16600, intentional and negligent infliction of emotional distress, unfair competition, and interference with prospective economic advantage.

In support of its motion for a preliminary injunction, Majestic submitted declarations and deposition testimony. Rick Whittier, the president of Majestic, asserted that, during his 16 years as president, “Majestic has developed a unique database of customers and potential customers that contains highly detailed information concerning thousands of customers in North America (the ‘Customer List’) through several years of arduous and diligent effort. Majestic has expended substantial time, energy, money, and expertise in developing significant contacts with customers who have purchased its customized specialty items and other products and with prospective customers who have come into contact with Majestic through its extensive marketing efforts.”

The customer list, contained in a separate computer base, also includes information about customer needs and preferences, purchasing history, a chronology of customer contacts, trade show schedules, and Majestic’s related internal communications for more than 20,000 customers. Similarly, Majestic has developed a limited list of about 100 vendors from thousands of possible vendors. Whittier maintained that the customer list could not be replicated or compiled without years of effort and the expenditure of millions of dollars. Whittier made similar claims about Majestic’s vendor list.

Whittier strongly disputed that Majestic’s customers or vendors are easily

identifiable based on the promotional products themselves or its catalogs and Web site. Instead, he characterized these samples as displaying “a random assortment of various companies for which such vendors have created products.”

Whittier contends that Majestic vigorously protects its confidential and trade secret information from disclosure by means of a password-protected database and confidentiality agreements with its employees. Majestic began using the NetSuite database for customer information in January 2006. NetSuite requires an employee to have a license, user name, and password.

Whittier and Gabriel Coy, in his declaration summarizing the Nays’ deposition testimony, both assert that, before the Nays quit working for Majestic, they had begun to solicit orders for their new company from Majestic customers. Whittier estimated the lost revenue for Majestic for a six-month period was about \$1.5 million, or a 30 percent decline in sales. David Nay’s departure and subsequent conduct significantly affected Majestic’s cheerleading business in particular.

In opposing declarations, the Nays countered that they could easily replicate Majestic’s customer information in a few hours, using Majestic’s catalogs and Web site, the Internet, and customer lists purchased from other parties, and by attending trade shows. The Nays disputed that Majestic’s customer list was as detailed as claimed by Whittier. David Nay claimed his success as a salesman derived from the personal service he provided to customers, not information he obtained from Majestic’s customer list.

In September 2008, the trial court granted a preliminary injunction against the Nays. The order prohibited defendants from making use of any Majestic customer

information existing as of January 2, 2008. It also prohibited defendants from contacting about 3,000 businesses who were Majestic customers within the two years prior to January 2, 2008. The order specifically enumerated 40 customers with whom defendants were barred from doing business. It permitted defendants to continue doing business with three companies. It made an exception for orders received by defendants before August 4, 2008. The order also required defendants to return information and property to Majestic.

### 3. Standard of Review

The parties offer conflicting descriptions of the standard of review. In their opening brief, the Nays identify three kinds of review, based on the circumstances of the case. (*Huong Que, Inc. v. Luu* (2007) 150 Cal.App.4th 400, 408.) But, in their reply brief, the Nays explain their appeal is based upon the trial court's purported failure to apply the law properly to undisputed facts, meaning we conduct an independent review. (*Ibid.*) In contrast, Majestic argues the appellate court must decide whether the trial court abused its discretion in granting the injunction. (*Ibid.*)

Recent case law has expressed the standard of review as follows: "Once the legal question is resolved, the trial court's decision to grant a preliminary injunction is reviewed for an abuse of discretion. If the evidence is in dispute, we interpret the facts in the light most favorable to the prevailing party. (*ReadyLink Healthcare v. Cotton* (2005) 126 Cal.App.4th 1006, 1016 . . . [Fourth Dist., Div. Two].) If the ultimate facts are undisputed, the propriety of an injunction becomes a question of law. (*Cabrini Villas Homeowners Assn. v. Haghverdian* (2003) 111 Cal.App.4th 683, 688-689 . . . .)"

(*Cinquegrani v. Department of Motor Vehicles* (2008) 163 Cal.App.4th 741, 746.)

Notwithstanding the difference of opinion between the parties: “The ultimate questions on a motion for a preliminary injunction are (1) whether the plaintiff is ‘likely to suffer greater injury from a denial of the injunction than the defendants are likely to suffer from its grant,’ and (2) whether there is ‘a reasonable probability that the plaintiffs will prevail on the merits.’” (*Robbins v. Superior Court* (1985) 38 Cal.3d 199, 206 . . . .)” (*Hong Que, Inc. v. Luu, supra*, 150 Cal.App.4th at p. 408.)

The Nays offer little discussion of the first point, involving the weighing of relative injury to the parties. Instead, they focus on the legal viability of Majestic’s claims and the likelihood of prevailing. Based on either standard of review, we affirm the ruling of the trial court, acknowledging that our decision here is not the final word: “Our decision regarding trade secret status is based upon the appellate record and is not a final adjudication on the merits. [Citations.] The ultimate determination of trade secret status is subject to proof presented at trial.” (*Whyte v. Schlage Lock Co.* (2002) 101 Cal.App.4th 1443, 1453.)

#### 4. Discussion

Initially we observe this appeal may well be moot because the two-year period of the noncompete clause expires in January 2010 before the appeal can possibly be resolved. In view of the fact that two years will have passed since defendants left Majestic’s “employ, by the very terms of the contract the time has elapsed during which [Majestic] would be entitled to obtain an injunction against defendant[s] restraining [them] from using the lists of [its] customers.” (*Gordon v. Landau* (1958) 49 Cal.2d 690,

695.)

Under these circumstances, there may be no reason to continue the injunction. (Civ. Code, § 3426.2, subd. (a) [“Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.”]; see *Whyte v. Schlage Lock Co.*, *supra*, 101 Cal.App.4th at pp. 1451-1452.)

Nevertheless, considering that there may be reasons, not fully articulated here or below, for the trial court to continue the injunction past the two-year period, we will address the merits in part.

a. Noncompete Clause

The customer information which Majestic sought to protect by injunction is a list of the names of and information about 3,000 customers with which Majestic did business between January 2, 2006 and January 2, 2008. Specifically identified are 40 named customers which defendants had already contacted or attempted to contact. Sales orders received by defendants by August 4, 2008 could be completed.

The Nays initially argue that the noncompete clause is unenforceable. Statutory and case law embody this important public policy: “[I]n 1872 California settled public policy in favor of open competition, and rejected the common law ‘rule of reasonableness,’ when the Legislature enacted the Civil Code. [Citations.] Today in California, covenants not to compete are void, subject to several exceptions . . . .”



(*Edwards v. Arthur Andersen LLP* (2008) 44 Cal.4th 937, 945, fn. omitted; *The Retirement Group v. Galante* (2009) 176 Cal.App.4th 1226, 1233-1234.) As set forth in Business and Professions Code section 16600: “Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.”

Under Business and Professions Code section 16600’s plain meaning, an employer cannot by contract restrain a former employee from engaging in his profession, trade, or business unless the agreement falls within one of the exceptions to the rule. The law protects “the important legal right of persons to engage in businesses and occupations of their choosing.” (*Morlife, Inc. v. Perry* (1997) 56 Cal.App.4th 1514, 1520; *Armendariz v. Foundation Health Psychcare Services, Inc.* (2000) 24 Cal.4th 83, 123, fn. 12 [such restraints on trade are “largely illegal”]; *D’Sa v. Playhut, Inc.* (2000) 85 Cal. App.4th 927, 933.) As former employees, the Nays are free to solicit business from Majestic’s customers if the competition is “fairly and legally conducted.” (*Continental Car-Na-Var Corp. v. Moseley* (1944) 24 Cal.2d 104, 110; *American Credit Indemnity Co. v. Sacks* (1989) 213 Cal.App.3d 622, 633.)

The latter, however, is a key qualification. Defendants contend the preliminary injunction’s absolute bar on any contact for any purpose between defendants and Majestic’s customers is too inhibitory. But defendants recognize that unfair and illegal competition may be prohibited. If Majestic’s customer information is a trade secret, then the exception to the bar against noncompetition agreements may operate. Despite California’s broad prohibition against noncompetition agreements, covenants not to

compete may be enforced to the extent that enforcement is necessary to protect a company's trade secrets. (*Muggill v. Reuben H. Donnelley Corp.* (1965) 62 Cal.2d 239, 242; *ReadyLink Healthcare v. Cotton, supra*, 126 Cal.App.4th at pp. 1017-1022; *The Retirement Group v. Galante, supra*, 176 Cal.App.4th at p. 1237.)

b. Trade Secret

Under California law, "trade secret" means "information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

"(1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and

"(2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy." (Civ. Code, § 3426.1, subd. (d).) Thus, the definition consists of three elements: (a) information (b) which is valuable because unknown to others and (c) which the owner has attempted to keep secret.

"A customer list is one of the types of information which can qualify as a trade secret. (*American Paper & Packaging Products, Inc. v. Kirgan* (1986) 183 Cal.App.3d 1318, 1323-1324 . . . )" (*ABBA Rubber Co. v. Seaquist* (1991) 235 Cal.App.3d 1, 18 [Fourth Dist., Div. Two].) But, "[i]f a so-called trade secret is fully disclosed by the products produced by use of the secret then the right to protection is lost. (*Futurecraft Corp. v. Clary Corp.* (1962) 205 Cal.App.2d 279, 289 . . . )" (*Vacco Industries, Inc. v. Van Den Berg* (1992) 5 Cal.App.4th 34, 50.) Any information that is either not held in a confidential manner or is generally known cannot be deemed a trade secret.

In the present case, the Nays assert that Majestic’s customer information is not a trade secret because the identity of individual customers can be discerned from the promotional products that publicly announce and promote the customer. In other words, a promotional bag bearing the logo for Widgets, Inc. publicly identifies the company as a proven purchaser of promotional products. Additionally, the Nays contend that Majestic’s customer information is available from its own catalogs, its sale of customer lists to third parties, and from the businesses themselves. Therefore, Majestic cannot claim confidentiality or trade secret status for the identity of any of its customers. (*ABBA Rubber Co. v. Seaquist, supra*, 235 Cal.App.3d at pp. 18-20.)

We disagree with the Nays’ assessment of the public nature of Majestic’s customer information. Instead, after reviewing the evidence submitted by the parties, we agree with the trial court’s findings that the information about Majestic’s customers is valuable because it is not generally known to its competitors to the extent it has been developed by Majestic in detail for many years. Furthermore, Majestic has undertaken significant efforts to keep the information secret. (*Morlife, Inc. v. Perry, supra*, 56 Cal.App.4th at p. 1521.)

Where an owner has expended time, effort, and expense creating a customer list “identifying customers with particular needs or characteristics, courts will prohibit former employees from using this information to capture a share of the market. Such lists are to be distinguished from mere identities and locations of customers where anyone could easily identify the entities as potential customers. [Citations.] As a general principle, the more difficult information is to obtain, and the more time and resources expended by an

employer in gathering it, the more likely a court will find such information constitutes a trade secret. (*Courtesy Temporary Service, Inc. v. Camacho* (1990) 222 Cal.App.3d 1278, 1287 . . . .)” (*Morlife, Inc. v. Perry, supra*, 56 Cal.App.4th at pp. 1521-1522.)

In the case at bar, the evidence submitted by Majestic established that its customers “were not readily ascertainable, but only discoverable with great effort, and the patronage of such customers was secured through the expenditure of considerable time and money.” (*Morlife, Inc. v. Perry, supra*, 56 Cal.App.4th at p. 1522.) Majestic’s president explained that Majestic developed its customer base “through years of Majestic’s trade show marketing, industry publication advertising, web advertising, telemarketing, and satisfied customer referrals and cannot be replicated or compiled by any individual or organization in a matter of weeks, months or even a few years.” (*Ibid.*) Substantial evidence supports the trial court’s finding that Majestic’s customer list comprised a protectable trade secret. Therefore, it was not an abuse of discretion for the trial court to grant an injunction prohibiting the Nays from using customer information existing as of January 2, 2008. (*The Retirement Group v. Galante, supra*, 176 Cal.App.4th at pp. 1238-1241.)

### c. Other Issues

The Nays also argue the injunction is overly broad and indefinite as to duration. In particular, the Nays protest that at least they should have been allowed to announce the formation of their new company to Majestic customers. (*American Credit Indemnity Co. v. Sacks, supra*, 213 Cal.App.3d at p. 636.) Perhaps the injunction was too broad and should have been for a limited period of time. But, given that the two-year period of the

noncompete clause expires in January 2010, the issues of breadth and duration should be reconsidered by the trial court on remand. (Civ. Code, § 3426.2, subd. (a).) These issues may well be moot and certainly will have been affected by the passage of time. (See *Whyte v. Schlage Lock Co.*, *supra*, 101 Cal.App.4th at pp. 1451-1452.) Similarly, if the trial court determines that the injunction should be terminated, the issue about the amount of the undertaking will be moot.

### 5. Disposition

In summary, for the limited purposed of this appeal, we agree Majestic's customer list is a protectable trade secret. We affirm the trial court's ruling granting the injunction against the Nays. The issues involving the breadth and scope of the preliminary injunction and the sufficiency of the undertaking posted by Majestic are issues that should be raised on remand to the trial court in view of the expiration of the two-year period for noncompetition.

Majestic, the prevailing party, shall recover its costs on appeal.

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s/Gaut  
J.

We concur:

s/McKinster  
Acting P. J.

s/King  
J.